

MIDSTATE

ECONOMIC INDICATORS

Q208

Business and Economic Research Center | Jennings A. Jones College of Business | Middle Tennessee State University

Downturn Deepens

The economic downturn deepened in the second quarter as evidenced by a sharp rise in unemployment, falling nonfarm employment, and lower taxable sales compared with the first quarter (Table 1). The only news that brings any relief is from an unexpected source: housing. Permits issued for construction show just a small decline in the second quarter, and the total value of permits actually rose.

The rapid rise in the unemployment rate is the big news for the second quarter: unemployment soared by nearly 8,000 for the Nashville MSA, a 12.8 percent increase from the previous quarter, and the unemployment rate climbed to 5.7 percent (Table 2). While not recession-level high, the most concerning part of this is just how rapidly unemployment has climbed: over the year, the number of unemployed jumped 36 percent, with one-third of this rise occurring in the second quarter.

The rising unemployment rate is driven in part by a large increase in the number of workers filing for unemployment insurance, up 18.7 percent from the first quarter and 30.4 percent over the year. Rising initial unemployment insurance claims is indicative of substantial workforce reductions among area employers.

A puzzling feature of the current situation is the very minimal negative response of nonfarm employment. One would have expected a large decrease in nonfarm employment instead of the modest increase we have been witnessing. After all, when more workers draw unemployment insurance, it is because firms have let workers go. But our

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by David A. Penn

Table 1. Economic Indicators for Middle Tennessee

Series (seasonally adjusted)	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2	% Change 08Q1-08Q2	% Change 07Q2-08Q2
Labor Force and Employment							
Midstate							
Total Employment	1,140,510	1,145,795	1,144,491	1,144,131	1,139,492	-0.4%	-0.1%
Labor Force	1,191,271	1,201,705	1,203,016	1,205,497	1,208,722	0.3%	1.5%
Unemployed	50,760	55,910	58,525	61,366	69,230	12.8%	36.4%
Unemployment Rate	4.3%	4.7%	4.9%	5.1%	5.7%		
Initial Claims Unemployment Compensation	37,361	38,190	40,506	41,035	48,703	18.7%	30.4%
Nashville MSA							
Total Employment	757,385	762,564	761,490	761,133	759,618	-0.2%	0.3%
Labor Force	786,090	794,102	795,189	797,167	800,344	0.4%	1.8%
Unemployed	28,705	31,538	33,700	36,034	40,727	13.0%	41.9%
Unemployment Rate	3.7%	4.0%	4.2%	4.5%	5.1%		
Nonfarm employment	760,600	760,800	760,500	767,300	766,600	-0.1%	0.8%
Nashville MSA Housing Construction							
New Residential Permits							
Single-Family	2,973	2,637	2,030	1,553	1,525	-1.8%	-48.7%
Multi-Family	364	522	1,084	242	202	-16.6%	-44.6%
Total	3,337	3,159	3,114	1,795	1,727	-3.8%	-48.3%
Value of New Residential Units (million \$)							
Single-Family	530.5	485.7	388.0	279.3	285.3	2.1%	-46.2%
Multi-Family	28.9	53.2	89.7	23.6	13.8	-41.5%	-52.1%
Total	559.4	538.9	477.7	302.9	299.1	-1.3%	-46.5%
Davidson County Tourism							
Total Air Passengers, Nashville International Airport	2,458,842	2,493,519	2,481,546	2,417,204	2,383,095	-1.4%	-3.1%
Taxable Sales (estimates, million \$)							
Nashville MSA	7,400	7,417	7,468	7,445	7,381	-0.9%	-0.3%
Midstate	10,056	10,056	10,070	10,080	10,026	-0.5%	-0.3%

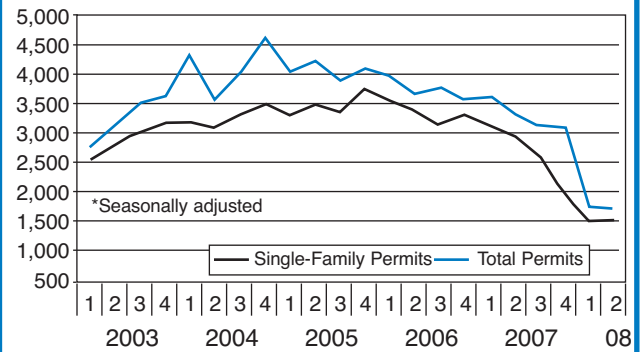
Notes: Seasonal adjustment with X11. *Nashville MSA includes 13 counties. **Midstate is a 41-county area. Sources: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Bureau of the Census; Davidson County Clerk's office; Metropolitan Nashville Airport Authority; U.S. Bankruptcy Court, Middle Tennessee District.

Table 2. Nonfarm Employment: Quarterly Growth, Selected Metropolitan Areas

Metropolitan Area	07Q2- 07Q3	07Q3- 07Q4	07Q4- 08Q1	08Q1- 08Q2
Atlanta-Sandy Springs-Marietta, GA	0.7%	0.2%	0.3%	-0.1%
Birmingham-Hoover, AL	-0.1%	0.2%	-0.1%	-0.1%
Charlotte-Gastonia-Concord, NC-SC	0.5%	0.3%	0.4%	0.7%
Indianapolis, IN	0.5%	0.0%	0.2%	-0.1%
Louisville, KY-IN	0.2%	0.3%	0.3%	-0.7%
Memphis, TN-MS-AR	0.1%	0.4%	-0.2%	-0.5%
Nashville-Davidson-Murfreesboro, TN	0.7%	0.1%	0.4%	-0.1%

Seasonally adjusted. Source: Bureau of Labor Statistics, CES series

Figure 1. Building Permits Issued for Housing, Nashville MSA



Housing

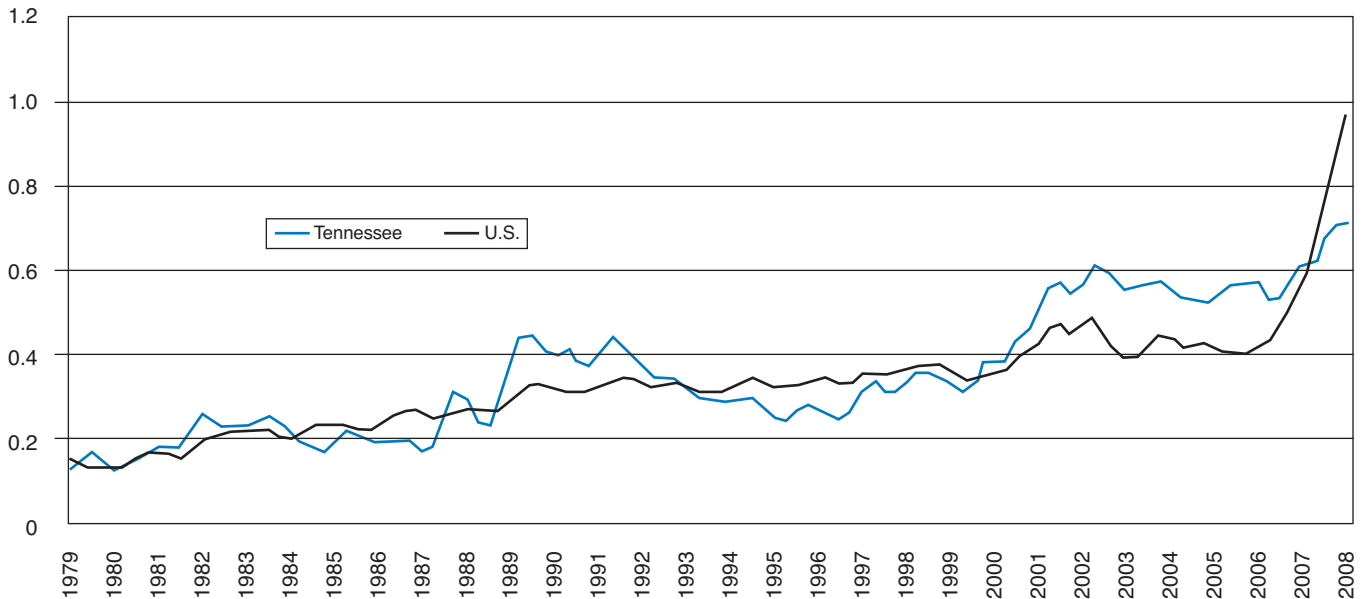
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data are telling us that unemployment has increased by 7,800 from the first quarter, but nonfarm employment has dropped by just 1,000. Part of the difference might be explained by the manner in which the numbers are developed: nonfarm employment is estimated from a monthly survey of employers, while unemployment and the unemployment rate are figured from a monthly survey of households.

The housing construction, real estate, and mortgage markets offer mixed news for Tennessee; mixed meaning "not all bad news." First, as mentioned earlier, housing construction appears to be at or near its low: single-family home construction is down just 1.8 percent from the first quarter, and the total value of single-family homes actually posted a modest 2.1 percent gain (Figure 1). To be sure, home construction still is far behind year-ago levels but

Table 3. Nashville-Davidson-Murfreesboro MSA Nonfarm Employment (thousands)

Sector	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2	% Change 08Q1-08Q2	% Change 07Q2-08Q2
Total Nonfarm	758.6	764.1	765.0	768.2	767.3	-0.1%	1.1%
Total Private	661.0	664.4	665.6	669.2	668.2	-0.1%	1.1%
Manufacturing	79.8	78.9	77.8	76.2	74.9	-1.7%	-6.1%
Durable Goods	54.7	53.9	52.9	51.5	50.5	-1.9%	-7.7%
Nondurable Goods	25.2	25.0	24.9	24.7	24.4	-1.2%	-3.2%
Wholesale Trade	36.6	36.9	37.2	37.3	37.5	0.5%	2.5%
Retail Trade	87.2	87.7	88.0	89.5	89.9	0.4%	3.1%
Transportation and Utilities	30.7	30.5	30.2	30.4	30.2	-0.7%	-1.6%
Information	19.2	19.5	19.6	19.7	19.8	0.5%	3.1%
Financial Activities	46.4	46.7	46.6	46.7	46.3	-0.9%	-0.2%
Finance and Insurance	35.3	35.5	35.5	35.7	35.3	-1.1%	0.0%
Real Estate and Rental and Leasing	11.1	11.1	11.1	11.0	11.0	0.0%	-0.9%
Professional and Business Services	101.0	102.2	100.7	101.7	102.5	0.8%	1.5%
Professional, Scientific, and Technical Services	37.1	37.5	37.3	37.5	37.7	0.5%	1.6%
Management of Companies and Enterprises	9.2	9.0	9.0	9.4	9.5	1.1%	3.3%
Educational and Health Services	107.1	108.9	110.4	111.2	110.8	-0.4%	3.5%
Educational Services	23.8	24.2	24.6	24.6	23.8	-3.3%	0.0%
Health Care and Social Assistance	83.3	84.7	85.8	86.6	87.0	0.5%	4.4%
Leisure and Hospitality	80.8	80.9	81.6	82.5	82.5	0.0%	2.1%
Arts, Entertainment, and Recreation	10.0	9.8	9.8	9.8	9.8	0.0%	-2.0%
Accommodation and Food Services	70.8	71.1	72.0	72.7	72.7	0.0%	2.7%
Accommodation	12.9	12.5	12.9	12.8	13.0	1.6%	0.8%
Food Services and Drinking Places	57.9	58.5	59.1	59.8	59.7	-0.2%	3.1%
Other Services	30.3	30.4	30.4	30.4	30.4	0.0%	0.3%
Government	97.7	99.6	99.4	99.1	99.3	0.2%	1.6%

Figure 2. Foreclosures Started as Percent of Mortgages Serviced (Seasonally Adjusted and Smoothed)

shows improvement from the previous quarter. We may have reached the turning point for housing construction in the Nashville area.

Though housing construction may have bottomed, the mortgage market has not, as the number of mortgages in trouble continued to rise in the second quarter for both the United States and Tennessee. We have three indicators for troubled mortgages: (1) the percent of mortgages that are delinquent, or behind in payments, (2) the percent of mortgages entering foreclosure during a particular quarter, and (3) the inventory of all mortgages in foreclosure as a percent of all mortgages. According to figures from the Mortgage Bankers Association of America, foreclosure starts continue to rise at about the same rate as experienced during the past five quarters, with the second quarter at 0.78

percent compared with 0.73 for the first quarter. Falling home sales combined with a rising number of new foreclosures caused the inventory of foreclosed homes to rise from 1.48 percent to 1.58 percent, still well below the recent high of 1.85 percent reached for Tennessee in 2003 (Figure 2).

In the Nashville residential real estate market, sales of single-family homes continued to decline but not as quickly as in previous months. In fact, the fall in sales for July was the smallest decline we have experienced since January 2007. Assuming the present trend continues, sales will reach bottom five or six months from now (January or February of 2009) and slowly increase thereafter.

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Table 4. Economic Indicators for Chattanooga MSA and Clarksville MSA

Series (seasonally adjusted)	2006Q4	2007Q1	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2	% Change 08Q1-08Q2	% Change 07Q2-08Q2
Chattanooga MSA									
Nonfarm Employment (thousand)	247.5	247.4	247.2	248.0	248.0	248.2	247.4	-0.3%	0.1%
Unemployment Rate	4.1	4.0	3.8	3.8	4.4	4.9	5.3	7.8%	39.7%
Taxable Sales (million \$)	1,642.7	1,656.9	1,668.9	1,673.6	1,717.4	1,667.3	1,694.6	1.6%	1.5%
Permit-Authorized Housing Construction									
Total	630	565	570	479	408	374	347	-7.4%	-39.2%
Single-Family	626	514	511	417	334	299	319	6.5%	-37.6%
Clarksville MSA									
Nonfarm Employment (thousand)	85.1	85.4	85.0	85.2	85.5	85.2	85.4	0.2%	0.5%
Unemployment Rate	5.0	5.4	4.9	5.1	5.4	5.8	6.4	9.4%	30.5%
Taxable Sales (million \$)	593.4	594.4	589.4	588.7	580.0	562.9	577.1	2.5%	-2.1%
Permit-Authorized Housing Construction									
Total	766	670	542	382	380	463	219	-52.8%	-59.6%
Single-Family	577	421	409	289	279	233	195	-16.4%	-52.3%

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Housing

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Along these same lines, the inventory of single-family homes in the Nashville area peaked in April at 15,300 units; the August figure of 15,033 is nearly 2% lower, after seasonal adjustments. Sales continue to fall, but the pace of decline has diminished somewhat; when we examine the underlying sales trend (free from seasonality and idiosyncratic bumps), we find that the monthly decline in sales is the smallest since late in 2006. At the current pace, sales should reach bottom sometime in the first quarter of 2009, barring a significant deterioration of conditions in the mortgage market.

Nashville's nonfarm employment declined slightly in the second quarter, down about 900 jobs (0.1 percent) from the first quarter. Most job losses occurred in manufacturing (-1.7% from the first quarter), transportation and utilities (-0.8%), finance and insurance (-0.9%), and educational services (-0.*%). Food services and drinking places and arts, entertainment, and recreation experienced smaller employment declines. Several other sectors continued to add jobs including retail trade, wholesale trade, information, professional, scientific, and technical services, and health care (Table 3).

The Chattanooga and Clarksville metropolitan areas also feel the economic slowdown (Table 4). Nonfarm employment is on the decline in Chattanooga, down 0.3 percent from the first quarter, causing the unemployment rate to rise to 5.3%. Single-family permits show an increase from the first quarter, however, and taxable sales continue to rise but at a very modest pace. In Clarksville, nonfarm employment is flat, and the unemployment rate is rising. Taxable sales experienced a favorable gain, but housing construction continued to plunge. ■

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